

FISCAL NOTE

Bill #: HB0677

Title: Revise and increase minimum wage

Primary Sponsor: Kaufmann, C

Status: As Introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	\$2,093,518	\$2,111,488
State Special Revenue	\$242,185	\$256,863
Federal Special Revenue	\$478,762	\$485,434
Other – Proprietary	\$85,132	\$90,291
Other – Tuition	\$1,193,387	\$1,193,387
Revenue:		
General Fund	\$0	\$0
State Special Revenue	\$0	\$0
Federal Special Revenue	\$0	\$0
Other – Proprietary	\$0	\$0
Other – Tuition	\$0	\$0
Net Impact on General Fund Balance:	(\$2,093,518)	(\$2,111,488)

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Administration (DoA)

1. Currently, the federal prevailing minimum wage is \$5.15 per hour. Effective July 1, 2005, the minimum wage in Montana would become \$8.000/hour as determined by dividing an annual income base of \$16,640 by 2,080 work-hours in a year. In fiscal year 2007, this wage rate would be inflated according to the formula in Section 5 of the bill, where the adjusted base = $B + B[(W2-W1)/W1]$, and $B = \$16,640$; $W1 = \text{CPI-W for calendar year 2004}$, and $W2 = \text{CPI-W for calendar year 2005}$.
2. For purposes of this fiscal note $W1=3.3$ percent, which is the national CPI (consumer price index) for December 2004 over December 2003; and $W2$, which won't be available until after December 2005, is

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assumed to be 3.5 percent. Based on this inflation formula, the Montana minimum wage that becomes effective July 1, 2006 will be \$8.48485/hour.

3. A query of employee salaries in the State of Montana's human resources database as of the payperiod ended January 7, 2005, (excluding University System employees and those employees excluded in subsection (1)(a) of the bill) indicates that in absence of any other factors affecting an employee's pay rate, the state would pay an additional \$627,260 in FY 2006 bringing current salaries that are less than \$8/hour, up to the minimum wage of \$8/hour. The additional pay in FY 2007 will be \$665,276, which is calculated by multiplying FY 2006's additional pay by the factor calculated in item 1 above (0.060606).
4. Benefits and employer taxes on the additional wages are calculated at 17% for purposes of this fiscal note.
5. Funding sources for purposes of this fiscal note are assumed to be distributed as follows:
 - General fund 40.4%
 - State Special Revenue fund 33.0%
 - Federal Special Revenue fund 15.0%
 - Other funds 11.6%

Montana University System (MUS)

6. The effect of this bill is to move all salaries to \$8.00 per hour. The MUS did not estimate the resulting ripple effect on salaries above \$8.00 per hour.
7. 16 percent of all student salaries are funded by federal work study funds (70 percent federal funds; 30 percent matching) and 6 percent are state work study funds (70 percent general fund, 30 percent matching).
8. Estimate 90 percent of employee's that make less than \$8.00 per hour are current unrestricted employees (custodian and library); the other 10 percent work for auxiliaries. The current unrestricted split is 43% state; 57% other (tuition).
9. UM (all campuses) estimated \$1,645,885 to increase all students to \$8.00 per hour. The MUS doubled that amount for the entire MUS.
10. UM (all campuses) estimated \$33,660 to raise all classified employees to \$8.00 per hour. The MUS doubled that amount for the entire MUS.

Department of Revenue (DoR)

11. The new minimum wage would not apply to certain municipal policemen or firemen; to election judges; to certain residents of mental or developmental disability facilities; to Montana conservation corps members; or to certain farm workers.
12. To the extent that some employees would see an increase in wages from this proposal, individual income tax collections may increase; to the extent that the increase in wages paid is reflected in a reduction in the profit of employers and businesses employing those persons, income tax collections may decrease. To the extent that some employees are laid off as a result of the increase in the minimum wage, income tax collections would decrease.
13. Neither the State of Montana nor the DoR has a general equilibrium impact model capable of accurately estimating the net revenue impact of minimum wage proposals.
14. Increasing the minimum wage to \$8 per hour would impact not just the DoR but all state agencies with employees who currently are earning less than this amount. Retaining these employees and paying them all at least \$8 an hour would have a significant impact on the pay plan and the funding needed to provide for state employee pay.

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FISCAL IMPACT:

All State Agencies

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Expenditures:</u>		
Personal Services	\$733,894	\$778,373
<u>Funding of Expenditures:</u>		
General Fund (01)	\$296,493	\$314,463
State Special Revenue (02)	242,185	256,863
Federal Special Revenue (03)	110,084	116,756
Other (06)	<u>85,132</u>	<u>90,291</u>
TOTAL	\$733,894	\$778,373
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(\$296,493)	(\$314,463)
State Special Revenue (02)	(242,185)	(256,863)
Federal Special Revenue (03)	(110,084)	(116,756)
Other	(\$85,132)	(\$ 90,291)

Montana University System

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Expenditures:</u>		
Personal Services	\$3,359,090	\$3,359,090
TOTAL		
<u>Funding of Expenditures:</u>		
General Fund (01)	\$1,797,025	\$1,797,025
Federal Special Revenue (03)	368,678	368,678
Other (Tuition)	<u>1,193,387</u>	<u>1,193,387</u>
TOTAL	\$3,359,090	\$3,359,090
<u>Revenues:</u>		
General Fund (01)	\$0	\$0
Federal Special Revenue (02)	0	0
Other (Tuition)	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(\$1,797,025)	(\$1,797,025)

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State Special Revenue (02)	(368,678)	(368,678)
Federal Special Revenue (03)	(\$1,193,387)	(\$1,193,387)
Other		

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Increasing the minimum wage as stipulated in HB 677 will most likely increase wages of certain county, city, and other municipal employees who are not excluded from HB 677 under subsection (1)(a) of the bill. The total dollar impact would need to be determined by looking at these governments' staffed positions that, as of July 1st of each year, will be making less than the calculated minimum wage in effect as calculated by this bill.

TECHNICAL NOTES:

1. Section 5(1) fails to update the annual income base following the initial adjustment for inflation when performing calculations for future adjustments. In order for the calculation to meet the assumed intent of the bill, Section 5(1) could be edited as follows:
 - a. The initial annual income base is \$16,460.
 - b. Starting July 1, 2006, the department of labor and industry shall adjust the income base provided in subsection (1)(b) by the following formula, where the adjusted base = $B - B - B_p + B_p[(W2 - W1)/W1]$ and:
 - (i) ~~B = the base described in subsection (1)(b);~~ B_p = the annual base income in the previous year;